

November 27, 2020

Rajarambapu Patil Sahakari Sakhar Karkhana Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Cash Credit	500.00	500.00	[ICRA]BB-(Stable); reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation considers Rajarambapu Patil Sahakari Sakhar Karkhana Limited's (RPSK's) extensive track record of operations, along with adequate cane availability over the years owing to its presence in a cane-rich region. The rating also derives comfort from the company's forward-integrated operations, with its cogeneration and distillery units providing additional revenue sources through power and liquor sales, respectively, reducing the impact of cyclicity in the sugar business to an extent. RPSK is one of the largest liquor manufacturers in the cooperative sector of Maharashtra State with a production capacity of 6200 cases per day out of which 2700 cases are of Indian Made Foreign Liquor which is sold and marketed by United Spirits Limited (Rated ICRA AA+/Stable/ A1+ as on January 31, 2020). Also, country liquor manufacturing, being regulated provides high entry barriers works in favour of RPSK with all the alcohol consuming States/Union Territories having their own regulations and entry -exit restrictions, it is very difficult for new entrants to get licenses thus providing a competitive advantage to existing players. ICRA has taken note of the above-average sugar recovery rate trend resulting in moderate operating efficiencies for the company. RPSK is one of the largest cooperative sugar mill in state of Maharashtra, and the company's performance in FY2021 will benefit from healthy sugarcane availability as well as expected sugarcane recovery rate of over 12.5%, which is amongst the best in the country.

The rating, however, remains constrained by RPSK's highly leveraged capital structure and weak coverage indicators. RPSK's gearing and Total/OPBITDA stood at 11.7 times and 9.4 times respectively in FY2020. The working capital intensity of the firm also remains higher, because of inventory stocking. The company has stretched liquidity position in the absence of quantum of sanctioned drawable bank lines coupled with minimal cash and cash equivalents which may limit its ability to make the repayments from its cash flows from operations in case of any contingency. Hence, the company may have to rely on additional financing in the form of short-term debt, given the high repayment obligations in the near term and the estimated modest accruals to serve the same. Thus, improvement in liquidity profile will remain critical from the credit perspective.

The rating also factors in cyclicity associated with the sugar business, agro-climatic risks related to cane production and Government policies on cane pricing, sugar trade and import duties. Further, its cogeneration unit remains exposed to counterparty risks due to likelihood of payment irregularity from the Maharashtra State Electricity Distribution Co. Ltd. (MSEDCL). Also, as United Spirits Limited (USL) remains a sole customer of RPSK, it also exposes the company to the concentration risk as performance of RPSK depends on the performance of USL.

Key rating drivers

Credit strengths

Long operating history of the company in sugar business - RPSK has demonstrated strong operating efficiencies over the years. The promoters have a longstanding experience in the sugar industry and wide acceptance among the local farmers, which facilitates adequate and timely cane procurement, ensuring an adequate crushing period. Established relationships with farmers in its command area, along with various support initiatives and timely payments, ensure good quality supply. Further, the recovery rate remains one of the highest in Maharashtra owing to good quality cane in the command area with favourable climatic conditions, fertile soil, cane development activities and adequate irrigation facilities.

Forward integration of sugar operations with co-generation and distillery unit provides some cushion against the cyclicity in the sugar business - The company's 17,000-tonne crushed per day (TCD) sugar operations are fully integrated with its 40-megawatt (MW) power generation plant and 75-kilo litre per day (KLPD) distillery plant, which are additional revenue sources and provide some comfort to its profitability against cyclicity in the sugar business. The company currently derives ~8% of its revenues from the distillery division. RPSK is a large manufacturer of Indian-made foreign liquor (IMFL) and country liquor in the co-operative sector of Maharashtra, with a production capacity of 6,200 cases per day. Liquor policies governing its production and sale are entirely controlled by the respective state governments. As all the alcohol-consuming states/union territories have their own regulations and entry-exit restrictions, it is very difficult for new entrants to get licenses, thus providing a competitive advantage to existing players like RPSK. Further, given the Government's thrust on increasing the ethanol blending programme and diverting sugarcane towards ethanol production instead of sugar production coupled increased realisation as announced recently by Cabinet Committee on Economic Affairs (CCEA), shall support profitability further to an extent.

Government support measures in terms of Sugar MSP, bailout package, cane subsidy and interest subvention likely to provide liquidity support to the sugar mills in the near term – Various Government-support measures in terms of the exports subsidy of Rs. 10.44/kg, bailout package, cane subsidy and interest subvention are likely to provide liquidity support to sugar mills like that of RPSK in the near term. However, the working capital intensity will also remain contingent upon the regulatory intervention in terms of minimum stocking as well as prevailing sugar prices as it may impact the inventory position of the sugar manufacturers by the year-end.

Credit challenges

Vulnerability of profitability to volatility in sugar realisation and cane procurement cost - Typically, profitability of the sugar entities is driven by sugar realisations and cane procurement costs. On one hand, sugar realisations are primarily market driven, though some policy changes impact sugar prices. On the other hand, state governments fix the minimum support price for cane, delinking it to an extent from sugar realisations. Further, sugar prices are highly susceptible to volatilities and remain a function of domestic sugar balance, international crude oil prices (which determines the raw sugar to ethanol mix in Brazil, the world's largest producer and exporter) and the Government of India's (GoI's) policies regarding sugar exports and import duties. Any adverse movements in these impact contribution margins and hence, the profitability of the sugar mills. However, expected improvement in MSP in the near term of sugar prices keeping the Cane cost at almost similar level shall support profitability in the near term.

Working capital intensive nature of business impacted by inventory stocking and repayment of cane; tight liquidity - On working capital front, the working capital intensity of the company remains moderately high majorly contributed by

higher sugar inventory at the year-end due to arrival of fresh sugar stock in the last quarter of fiscal. As of March 2020, the closing inventory stands at 2,15,286 MT and the same is expected to increase to over 2,40,000 MT by March 2021, because of expectation of bumper sugar season in SY2021.

The working capital intensity will also remain contingent upon the regulatory intervention in terms of minimum stocking as well as prevailing sugar prices as it may impact the inventory position of the sugar manufacturers by the year end further. Liquidity profile of RPSK remain stretched, as company has almost fully utilized its working capital facilities against available drawing power.

Financial profile characterised by weak capital structure, coverage indicators - The company incurred a significant net loss of Rs. 78.2 Crore in FY2015 owing to government regulation of paying fixed minimum cane price to farmers as against the subdued sugar realizations which led to negative contribution margins for the company and substantial networth erosion. This led to significant deterioration in capital structure of the company as it had to rely on external financing to pay the cane prices resulting in increase in debt. However, subsequent improvement in financial profile is witnessed from the lows of FY2016. RPSK's gearing stood at 11.7 times in FY2020 as opposed to 78.5 times in FY2015.

The company's capital structure and coverage indicators are also impacted by its working capital borrowing in terms of pledge loans, which is contingent upon the inventory levels maintained at the year end and the amount of cane arrears to be paid to farmers. Given sizable debt repayment obligation over next 2-3 years and modest accruals, the company is exposed to refinancing risk in the interim.

Vulnerability of profitability to agro climatic risk, cyclical trends in sugar business and state government's policy on cane prices - RPSK's cost structure and capacity utilisation is dependent upon various agro-climatic conditions, including the monsoons and the cyclicity in the sugar business. Cane production remains a function of the agro-climatic conditions, which impacts the volume and realisation of sugar and its by-products. Also, RPSK's operations remain exposed to various Government regulations prevalent in the sugar industry such as cane pricing and export/import norms. Profitability of the sugar entities is mainly driven by the sugar realisations and cane procurement costs. Any adverse movements in any of these impacts the contribution margins and, hence, profitability of the firm.

Liquidity position: Stretched

Company's liquidity profile is stretched with it almost fully utilising its working capital lines. The company's ability to timely liquidate sugar inventory remain crucial to allay liquidity concerns in the near term. RPSK's cash flow position is likely to remain weak in the near term on account of high working capital intensity and sizeable interest as well as principal repayments. Further, the company utilises working capital limits almost to the extent of the drawing power and has minimal cash and bank balances, leading to a stretched liquidity position. The company typically relies on short-term debt along with sale of sugar and allied products for servicing the deficit in case of any contingency and the trend is likely to continue in FY2021 as well.

Rating sensitivities

Positive triggers – Positive trigger on RPSK's rating would be in case of improvement in liquidity position along with improvement in leverage and coverage indicators on a sustained basis.

Negative triggers – Negative pressure on RPSK's rating could arise in case of any adverse movement in cane prices, agro-climatic conditions or any adverse regulatory measures impacting company's financial performance which in turn impacts company's credit profile and liquidity position shall have a bearing on the rating of the firm. Also, delay in liquidation of inventory and accrual of benefits from specified Government schemes shall result in rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	Not applicable.
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

RPSK was established in 1968 under the Maharashtra Co-operative Society Act, 1960 as Walwa Taluka Sahakari Sakhar Karkhana Limited to undertake sugar production in Sangli, Maharashtra. The name was subsequently changed to Rajarambapu Patil Sahakari Sakhar Karkhana Limited. RPSK is a part of the Sangli-based Rajarambapu Group, which has presence in businesses like sugar, dairy and co-operative banking. RPSK has sugar mills out of four locations - Sakhrale, Wategaon, Karandwadi and Jath - in Sangli with a total installed capacity of 17,000 TCD. However, for crushing season 2019-2020, the company utilised 14,500 TCD capacity through its Sakhrale, Wategaon and Karandwadi units as the Jath unit remained non-operational due to cane availability issues. Though in SY2021 all four units are expected to remain operational with a total crushing capacity of 17,000 TCD.

It has also set up a bagasse-based cogeneration power plant of 40 MW capacity, and a distillery unit with a capacity of 75 KLPD, under which it manufactures IMFL for brands like McDowell's No. 1 Celebration Rum, Haywards Fine Whisky, Bagpiper Whisky, Blue Riband Gin and Blue Riband Duet Gin. It also manufactures country liquor with 12 patented brands.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	871.4	886.1
PAT (Rs. crore)	4.3	6.1
OPBDIT/ OI (%)	9.7%	9.7%
RoCE (%)	0.5%	0.7%
Total Debt/ TNW (times)	13.4	11.7
Total Debt/ OPBDIT (times)	10.0	9.4
Interest Coverage (times)	1.3	1.3
TOL/TNW (times)	18.3	15.6
DSCR (times)	0.8	1.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	27-November 2020	10-June 2019	21-March 2018	FY2016
1 Fund-based - Cash Credit	Long Term	500.00	274.08	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-

Source: Company data as on October 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	500.00	[ICRA]BB-(Stable)

Source: RPSK

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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